

Message Text

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INFO AMCONSUL ZURICH

C O N F I D E N T I A L STATE 077728

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E.O. 11652: GDS

TAGS: MASS, SZ

SUBJECT: SALE OF NORTHROP F-5ES TO SWITZERLAND

REF: BERN 1045

1. SWISS ARMAMENT PROCUREMENT CHIEF CHARLES GROSSENBACHER
DEPARTED WASHINGTON ON MARCH 27 AFTER TALKS WITH NORTHROP,
GENERAL ELECTRIC, AND DEFENSE OFFICIALS CONCERNING
SWITZERLAND'S REQUEST FOR "COMPETITIVE PROCUREMENT" BY
THE US TO "OFFSET" EXPECTED SWISS EXPENDITURES OF
APPROXIMATELY ONE-HALF BILLION DOLLARS TO PURCHASE THE
NORTHROP F-5E "TIGER II" (REFTEL). SWISS AMBASSADOR
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FELIX SCHNYDER LATER TOLD A DEPARTMENT OFFICER THAT

GROSSENBACHER WAS "RATHER SATISFIED" WITH THE RESULTS OF HIS WASHINGTON MEETINGS, WHICH INCLUDED SESSIONS WITH DEPUTY SECRETARY OF DEFENSE WILLIAM P. CLEMENTS, JR.; ROBERT ELLSWORTH, ASSISTANT SECRETARY FOR INTERNATIONAL SECURITY AFFAIRS; DR. ROGER E. SHIELDS, DEPUTY ASSISTANT SECRETARY FOR INTERNATIONAL ECONOMIC AFFAIRS, ISA; AND RICHARD R. VIOLETT, DIRECTOR FOR SALES NEGOTIATIONS, DEFENSE SECURITY ASSISTANCE AGENCY. (A DEPARTMENT OF STATE OFFICER HAD TWO OPPORTUNITIES TO TALK WITH GROSSENBACHER INFORMALLY, BUT STATE DID NOT PARTICIPATE IN THE PENTAGON MEETINGS).

2. ACCORDING TO AMBASSADOR SCHNYDER, DEPUTY SECRETARY CLEMENTS SUBSEQUENTLY SENT A LETTER TO GROSSENBACHER, EXPRESSING HIS PLEASURE OVER HAVING HAD THE OPPORTUNITY TODISCUSS WITHTHE SWISS THEIR "MUTUAL CONCERN" ABOUT THE NEED TO EQUIP THE SWISS AIR FORCE WITH F-5E AIRCRAFT. CLEMENTS ALSO EXPRESSED UNDERSTANDING OF THE SWISS NEED FOR COMPENSATING "ECONOMIC BENEFITS," BUT STATED THAT THE LATTER'S 50 PERCENT TARGET COULD PRESENT THE US SIDE WITH A "PROBLEM OF CREDIBILITY." HE POINTED OUT THAT IT WAS BETTER NOT TO REACH AN UNREALISTIC OFFSET AGREEMENT WHICH WOULD LATER BE DIFFICULT TO IMPLEMENT. THE DEPARTMENT OF DEFENSE, EXPLAINED CLEMENTS, EXPECTS US CONTRACTORS AND SUBCONTRACTORS TO ASSUME AS MUCH OF THE OFFSET RESPONSIBILITIES IN A PARTICULAR DEAL AS POSSIBLE -- AND DOD WILL ONLY ACCEPT SOME OF THE ADDITIONAL BURDEN IF THERE IS NO OTHER ALTERNATIVE. CLEMENTS EXPRESSED HOPE THAT THE NORTHROP-GENERAL ELECTRIC - DOD TEAM VISITING ZURICH ON APRIL 1 COULD FIND SOME CONCRETE, WORKABLE WAYS IN WHICH TO SATISFY SWISS NEEDS. HE ANTICIPATED THAT THE US DRAFT OF AN OFFSET UNDERSTANDING COULD BE READY LATER IN APRIL FOR BILATERAL CONSIDERATION.

3. ON APRIL 1, DR. SHIELDS TOLD A DEPARTMENT OFFICER THAT, AS OF NOW, NORTHROP AND GENERAL ELECTRIC WERE ONLY PREPARED TO ASSUME 5 TO 6 PERCENT OF AN OFFSET PACKAGE -- BUT THAT HE BELIEVED A LITTLE MORE COULD POSSIBLYBE ACHIEVED ON THEIR PART. AS FOR THE DOD, CONFIDENTIAL

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SHIELDS COULD SEE SOME WAYS IN WHICH CERTAIN PROCUREMENT POLICIES COULD BE ADJUSTED TO PERMIT THE SWISS SOME COMPETITIVE ACCESS TO THE US MARKET. THIS COULD TOTAL ONLY AN ADDITIONAL 20 OR SO PERCENT AT THE MOST, HOWEVER.

4. FYI: ON MARCH 10, MR. TOM JONES, PRESIDENT AND CHAIRMAN, NORTHROP CORPORATION, HAD CALLED ACTING

SECRETARY INGERSOLL TO REQUEST STATE'S ASSISTANCE IN BROADENING THE US GOVERNMENT PARTICIPATION IN ZURICH TALKS. HE THOUGHT IT WOULD BE DESIRABLE TO HAVE SOMEONE ATTEND WHO WAS NOT ONLY KNOWLEDGEABLE ABOUT THE NARROWER INTERESTS OF DEFENSE AND COMMERCE, BUT ALSO THE POLITICAL SENSITIVITIES. THE TRADE ASPECTS OF THE DEAL WERE SUBSEQUENTLY DISCUSSED WITH UNDER SECRETARY OF COMMERCE JOHN TABOR, WHO INDICATED HIS WILLINGNESS TO HAVE A BERN STOP ARRANGED THE NEXT TIME AN APPROPRIATE COMMERCE OFFICIAL WAS VISITING EUROPE ON OTHER BUSINESS. END FYI.

5. IN VIEW OF THE FACT THAT DEFENSE HAS BEEN CLOSELY ASSISTING NORTHROP WITH THIS PROPOSED SALE SINCE ITS INCEPTION IN 1973, AND NOW HAS IN TRAIN SPECIFIC STUDY PROGRAMS TO DEAL WITH SWITZERLAND'S OFFSET REQUEST, THE DEPARTMENT HAS DECIDED THAT IT SHOULD AWAIT THE RESULTS OF THE ZURICH MEETING AND THE SUBSEQUENT DEFENSE STUDY BEFORE DECIDING ON ANY MORE DIRECT STATE PARTICIPATION. THE DEPARTMENT IS INCLINED TO AGREE WITH THE EMBASSY'S MARCH 10 ASSESSMENT (PARA 4, REFTEL) THAT A "COMPENSATION ARRANGEMENT," ALTHOUGH HELPFUL, WOULD NOT NECESSARILY BE AN IMPORTANT DECIDING FACTOR IN THE FINAL SWISS DECISION. (FYI: GENERAL ELECTRIC, A MAJOR INTERESTED PARTY IN THE F-5E TRANSACTION, IS ONE OF THE COMPLAINANTS IN THE LONG-OUTSTANDING DUMPING COMPLAINT AGAINST BROWN-BOVERI; HOWEVER, IT IS UNLIKELY THAT ACTION BY GE AT THIS POINT COULD AFFECT THE BROWN-BOVERI CASE. OUR OTHER MAJOR BILATERAL ECONOMIC IRRITANT -- THE COUNTERVAILING-DUTY ACTION AGAINST SWISS CHEESE -- COULD BE ON THE WAY TO SETTLEMENT. REPRESENTATIVES OF THE PRODUCERS OF THE TWO COUNTRIES WILL MEET IN CHICAGO LATER THIS MONTH. END FYI.)
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6. THE EMBASSY IS REQUESTED TO EVALUATE ANY AVAILABLE SWISS GOVERNMENT, BUSINESS, AND LABOR REACTIONS TO THE RESULTS OF THE ZURICH MEETING. INGERSOLL

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